

APPLIED DNA SCIENCES INC  
Form 10QSB  
August 20, 2007

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10QSB

- ☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934
- ☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the Quarterly period ended June 30, 2007

Commission file number 002-90519

**APPLIED DNA SCIENCES, INC.**  
(Exact name of registrant as specified in its charter)

**Nevada**  
(State or other jurisdiction of  
incorporation or organization)

**59-2262718**  
(I.R.S. Employer  
Identification Number)

**25 Health Sciences Drive, Suite 113**  
**Stony Brook, New York**  
(Address of Principal Executive Offices)

**11790**  
(Zip Code)

**(631) 444-6861**  
(Registrant's telephone number, including area code)

- Indicate by check mark whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the last 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

- Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

- The number of shares of Common Stock, \$0.001 par value, outstanding on August 17, 2007, was approximately 160,499,549.
- Transitional Small Business Disclosure Format (check one):

Yes ☐ No ☒

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**APPLIED DNA SCIENCES, INC**  
**QUARTERLY REPORT ON FORM 10-QSB FOR THE**  
**QUARTERLY PERIOD ENDING JUNE 30, 2007**

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**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)**

**APPLIED DNA SCIENCES, INC.**  
**(A Development stage company)**  
**CONDENSED CONSOLIDATED BALANCE SHEET**  
**(unaudited)**

		June 30, 2007
<b>ASSETS</b>		
Current assets:		
Cash	\$	34,792
Prepaid expenses		138,875
Total current assets		173,667
Property, plant and equipment-net of accumulated depreciation of \$67,497		120,865
Other assets:		
Deposits		13,822
Capitalized finance costs-net of accumulated amortization of \$1,641,988		65,612
Intangible assets:		
Patients, net of accumulated amortization of \$23,732 (Note B)		10,525
Intellectual property, net of accumulated amortization and write off of \$7,611,943 (Note B)		1,818,957
Total Assets	\$	2,203,448

**LIABILITIES AND DEFICIENCY IN STOCKHOLDERS' EQUITY**

Current liabilities:		
Accounts payable and accrued liabilities	\$	8,976,675
Convertible notes payable, net of unamortized discount (Note D)		1,745,855
Total current liabilities		10,722,530
Debt derivative and warrant liability		4,468,404
Commitments and contingencies (Note J)		
Deficiency in Stockholders' Equity- (Note F)		
Preferred stock, par value \$0.0001 per share; 10,000,000 shares authorized; 60,000 issued and outstanding		6
Common stock, par value \$0.001 per share; 410,000,000 shares authorized; 160,499,549 issued and		160,499

outstanding		
Additional paid in capital		87,420,306
Accumulated deficit		(100,568,297)
Total deficiency in stockholders' equity		(12,987,486)
Total liabilities and Deficiency in Stockholders' Equity	\$	2,203,448

See the accompanying notes to the consolidated  
financial statements

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**APPLIED DNA SCIENCES, INC.**  
**(A DEVELOPMENT STAGE COMPANY)**  
**CONDENSED CONSOLIDATED STATEMENTS OF LOSSES**  
**(unaudited)**

	For the three months Ended June 30,		For the nine months Ended June 30,		From September 16, 2002 (Date of Inception) Through June 30, 2007
	2007	2006 RESTATED	2007	2006 RESTATED	
Sales	\$ -	\$ 18,900	\$ -	\$ 18,900	\$ 18,900
Cost of sales	-	(15,639)	-	(15,639)	15,639
Gross Profit	-	3,261	-	3,261	3,261
Operating expenses:					
Selling, general and administrative	1,968,642	1,580,967	6,012,028	4,391,305	86,077,987
Research and development	25,504	-	94,289	75,276	1,124,888
Impairment of intangible asset(s)	-	-	-	-	5,655,011
Depreciation and amortization	108,357	336,824	324,594	1,021,199	2,054,320
Total operating expenses	2,102,503	1,917,791	6,430,912	5,487,780	94,912,207
NET LOSS FROM OPERATIONS	(2,102,503)	(1,914,530)	(6,430,912)	(5,484,519)	(94,908,946)
Net gain (loss) in revaluation of debt derivative and warrant liabilities	4,431,421	3,493,961	142,131	14,250,621	33,687,958
Other income	(0)	8,483	977	17,976	111,807
Interest expense	(520,963)	(826,827)	(1,945,702)	(3,177,229)	(39,459,116)
Net income (loss) before provision for income taxes	1,807,954	761,087	(8,233,506)	5,606,849	(100,568,297)

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Income taxes (benefit)	-	-	-	-	-
NET INCOME (LOSS)	\$ 1,807,954	\$ 761,087	\$ (8,233,506)	\$ 5,606,849	\$ (100,568,297)
Net income (loss) per share-basic	\$ 0.01	\$ 0.01	\$ (0.07)	\$ 0.05	
Net loss per share-assuming fully diluted-Note A	\$ (0.02)	\$ (0.02)		\$ (0.04)	
Weighted average shares outstanding-					
Basic	132,310,413	118,582,385	124,844,409	115,852,521	
Fully diluted	170,056,948	177,501,849	162,590,944	181,716,985	

See the accompanying notes to the consolidated financial statements



APPLIED DNA SCIENCES, INC  
(A development stage company)  
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY, (DEFICIENCY)  
FOR THE PERIOD SEPTEMBER 16, 2002 (DATE OF INCEPTION) THROUGH JUNE 30, 2007  
(unaudited)

	Preferred		Common		Additional	Common	Stock	Deficit		
	Preferred	Shares	Common	Common	Paid in	Stock	Subscription	Accumulated		
	Shares	Amount	Shares	Stock	Capital	Subscribed	Receivable	Development		
	Shares	Amount	Shares	Amount	Amount	Amount	Amount	Stage	Total	
Issuance of common stock to Founders in exchange for services on September 16, 2002 at \$.01 per share	-	-	100,000	\$ 10	\$ 990	\$ -	\$ -	\$ -	\$ -	\$ 1,000
Net Loss	-	-	-	-	-	-	-	(11,612)	(11,612)	
Balance at September 30, 2002	-	\$ -	100,000	\$ 10	\$ 990	\$ -	\$ -	\$ (11,612)	\$ (10,612)	
Issuance of common stock in connection with merger with Prohealth Medical Technologies, Inc on October 1, 2002	-	-	10,178,352	1,015	-	-	-	-	1,015	
Cancellation of common stock in connection with merger with Prohealth Medical Technologies, Inc on October 21, 2002	-	-	(100,000)	(10)	(1,000)	-	-	-	(1,010)	
Issuance of common stock in										

exchange for services in October 2002 at \$0.65 per share	-	-	602,000	60	39,070	-	-	-	39,130
Issuance of common stock in exchange for subscription in November and December 2002 at \$0.065 per share	-	-	876,000	88	56,852	-	(56,940)	-	-
Cancellation of common stock in January 2003 previously issued in exchange for consulting services	-	-	(836,000)	(84)	(54,264)	-	54,340	-	(8)
Issuance of common stock in exchange for licensing services valued at \$0.065 per share in January 2003	-	-	1,500,000	150	97,350	-	-	-	97,500
Issuance of common stock in exchange for consulting services valued at \$0.13 per share in January 2003	-	-	586,250	58	76,155	-	-	-	76,213
Issuance of common stock in exchange for consulting services at \$0.065 per share in February 2003	-	-	9,000	1	584	-	-	-	585

Issuance of  
common stock to  
Founders in  
exchange for  
services valued  
at \$0.0001 per  
share in March  
2003

-	-	10,140,000	1,014	-	-	-	-	1,014
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Issuance of  
common stock in  
exchange for  
consulting  
services valued  
at \$2.50 per  
share in March  
2003

-	-	91,060	10	230,624	-	-	-	230,634
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APPLIED DNA SCIENCES, INC  
(A development stage company)  
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY, (DEFICIENCY)  
FOR THE PERIOD SEPTEMBER 16, 2002 (DATE OF INCEPTION) THROUGH JUNE 30, 2007  
(unaudited)

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed	Stock Subscription Receivable	Deficit Accumulated During Development Stage	Total	
Issuance of common stock in exchange for consulting services valued at \$0.065 per share in March 2003		-	-	6,000	1	389	-	-	-	390
Common stock subscribed in exchange for cash at \$1 per share in March 2003		-	-	-	-	18,000	-	-	-	18,000
Common stock issued in exchange for consulting services at \$0.065 per share on April 1, 2003		-	-	860,000	86	55,814	-	-	-	55,900
Common stock issued in exchange for cash at \$1.00 per share on April 9, 2003		-	-	18,000	2	-	-	-	-	2
Common stock issued in exchange for consulting services at \$0.065 per share on April 9,										

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2003	-	-	9,000	1	584	-	-	-	585
Common stock issued in exchange for consulting services at \$2.50 per share on April 23, 2003	-	-	5,000	1	12,499	-	-	-	12,500
Common stock issued in exchange for consulting services at \$2.50 per share, on June 12, 2003	-	-	10,000	1	24,999	-	-	-	25,000
Common stock issued in exchange for cash at \$1.00 per share on June 17, 2003	-	-	50,000	5	49,995	-	-	-	50,000
Common stock subscribed in exchange for cash at \$2.50 per share pursuant to a private placement on June 27, 2003	-	-	-	-	-	24,000	-	-	24,000
Common stock retired in exchange for note payable at \$0.0118 per share, in June 30, 2003	-	-	(7,500,000)	(750)	750	-	-	-	-
Common stock issued in exchange for consulting services at \$0.065 per share, on June 30, 2003	-	-	270,000	27	17,523	-	-	-	17,550
Common stock subscribed in									

exchange for cash at \$1.00 per share pursuant to a private placement on June 30, 2003	-	-	-	-	-	10,000	-	-	10,000
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Common stock subscribed in exchange for cash at \$2.50 per share pursuant to a private placement on June 30, 2003	-	-	-	-	-	24,000	-	-	24,000
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APPLIED DNA SCIENCES, INC  
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CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY, (DEFICIENCY)  
FOR THE PERIOD SEPTEMBER 16, 2002 (DATE OF INCEPTION) THROUGH JUNE 30, 2007  
(unaudited)

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed	Stock Subscription Receivable	Deficit Accumulated During Development Stage	Total
Common stock issued in exchange for consulting services at approximately \$2.01 per share, July 2003	-	-	213,060	21	428,798	-	-	-	428,819
Common stock canceled in July 2003, previously issued for services rendered at \$2.50 per share	-	-	(24,000)	(2)	(59,998)	-	-	-	(60,000)
Common stock issued in exchange for options exercised at \$1.00 per share in July 2003	-	-	20,000	2	19,998	-	-	-	20,000
Common stock issued in exchange for exercise of options previously subscribed at \$1.00 per share in July 2003	-	-	10,000	1	9,999	(10,000)	-	-	-
Common stock issued in exchange for consulting services									

at approximately \$2.38 per Share in August 2003	-	-	172,500	17	410,915	-	-	-	410,932
Common stock issued in exchange for options exercised at \$1.00 per share in August 2003	-	-	29,000	3	28,997	-	-	-	29,000
Common stock issued in exchange for consulting services at approximately \$2.42 per share in September 2003	-	-	395,260	40	952,957	-	-	-	952,997
Common stock issued in exchange for cash at \$2.50 per share-subscription payable in September 2003	-	-	19,200	2	47,998	(48,000)	-	-	-
Common stock issued in exchange for cash at \$2.50 per share pursuant to a private placement in September 2003	-	-	6,400	1	15,999	-	-	-	16,000
Common stock issued in exchange for options exercised at \$1.00 per share in September 2003	-	-	95,000	10	94,991	-	-	-	95,001
Common stock subscription receivable reclassification adjustment	-	-	-	-	-	-	2,600	-	2,600



Common Stock subscribed to at \$2.50 per share in September 2003	-	-	-	-	-	300,000	-	-	300,000							
Net Loss for the year ended September 30, 2003	-	-	-	-	-	-	-	(3,445,164)	(3,445,164)							
Balance at September 30, 2003	-	\$	-	17,811,082	\$	1,781	\$	2,577,568	\$	300,000	\$	-	\$	(3,456,776)	\$	(577,427)

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CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY, (DEFICIENCY)  
FOR THE PERIOD SEPTEMBER 16, 2002 (DATE OF INCEPTION) THROUGH JUNE 30, 2007  
(unaudited)

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed	Stock Subscription Receivable	Deficit Accumulated During Development Stage	Total
Preferred shares issued in exchange for services at \$25.00 per share in October 2003	15,000	15	-	-	-	-	-	-	15
Common stock issued in exchange for consulting services at approximately \$2.85 per Share in October 2003	-	-	287,439	29	820,389	-	-	-	820,418
Common stock issued in exchange for cash at \$2.50 per share-subscription payable in October 2003	-	-	120,000	12	299,988	(300,000)	-	-	-
Common stock canceled in October 2003, previously issued for services rendered at \$2.50 per share	-	-	(100,000)	(10)	(249,990)	-	-	-	(250,000)
Common stock issued in exchange for consulting services									

at approximately \$3 per share in November 2003	-	-	100,000	10	299,990	-	-	-	300,000
Common stock subscribed in exchange for cash at \$2.50 per share pursuant to a private placement in November, 2003	-	-	100,000	10	249,990	-	-	-	250,000
Common stock subscribed in exchange for cash at \$2.50 per share pursuant to a private placement in December, 2003	-	-	6,400	1	15,999	-	-	-	16,000
Common stock issued in exchange for consulting services at approximately \$2.59 per share in December 2003	-	-	2,125,500	213	5,504,737	-	-	-	5,504,950
Common Stock subscribed to at \$2.50 per share in December 2003		-	-	-	-	104,000	-	-	104,000
Beneficial conversion feature relating to notes payable	-	-	-	-	1,168,474	-	-	-	1,168,474
Beneficial conversion feature relating to warrants	-	-	-	-	206,526	-	-	-	206,526
Adjust common stock par value from \$0.0001 to \$0.50 per share, per amendment of articles dated									

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in December 2004	-	-	-	10,223,166	(10,223,166)	-	-	-	-
Common Stock issued pursuant to subscription at \$2.50 share in January 2004	-	-	41,600	20,800	83,200	(104,000)	-	-	-

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APPLIED DNA SCIENCES, INC  
(A development stage company)  
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY, (DEFICIENCY)  
FOR THE PERIOD SEPTEMBER 16, 2002 (DATE OF INCEPTION) THROUGH JUNE 30, 2007  
(unaudited)

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed	Stock Subscription Receivable	Deficit Accumulated During Development Stage	Total
Common stock issued in exchange for consulting services at \$2.95 per share in January 2004	-	-	13,040	6,520	31,948	-	-	-	38,468
Common stock issued in exchange for consulting services at \$2.60 per share in January 2004	-	-	123,000	61,500	258,300	-	-	-	319,800
Common stock issued in exchange for consulting services at \$3.05 per share in January 2004	-	-	1,000	500	2,550	-	-	-	3,050
Common stock issued in exchange for employee services at \$3.07 per share in February 2004	-	-	6,283	3,142	16,147	-	-	-	19,289
Common stock issued in exchange for consulting services at \$3.04 per share in March 2004	-	-	44,740	22,370	113,640	-	-	-	136,010
Common Stock issued for									

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options exercised at \$1.00 per share in March 2004	-	-	55,000	27,500	27,500	-	-	-	55,000
Common stock issued in exchange for employee services at \$3.00 per share in March 2004	-	-	5,443	2,722	13,623	-	-	-	16,345
Common stock issued in exchange for employee services at \$3.15 per share in March 2004	-	-	5,769	2,885	15,292	-	-	-	18,177
Preferred shared converted to common shares for consulting services at \$3.00 per share in March 2004	(5,000)	(5)	125,000	62,500	312,500	-	-	-	374,995
Common stock issued in exchange for employee services at \$3.03 per share in March 2004	-	-	8,806	4,400	22,238	-	-	-	26,638
Common Stock issued pursuant to subscription at \$2.50 per share in March 2004	-	-	22,500	11,250	(9,000)	-	-	-	2,250
Beneficial Conversion Feature relating to Notes Payable			-	-	122,362	-	-	-	122,362
Beneficial Conversion Feature relating to Warrants	-	-	-	-	177,638	-	-	-	177,638
Common stock issued in									

exchange for consulting services at \$2.58 per share in April 2004	-	-	9,860	4,930	20,511	-	-	-	25,441
Common stock issued in exchange for consulting services at \$2.35 per share in April 2004	-	-	11,712	5,856	21,667	-	-	-	27,523
Common stock issued in exchange for consulting services at \$1.50 per share in April 2004	-	-	367,500	183,750	367,500	-	-	-	551,250

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APPLIED DNA SCIENCES, INC  
(A development stage company)  
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY, (DEFICIENCY)  
FOR THE PERIOD SEPTEMBER 16, 2002 (DATE OF INCEPTION) THROUGH JUNE 30, 2007  
(unaudited)

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed	Stock Subscription Receivable	Deficit Accumulated During Development Stage	Total
Common stock returned to treasury at \$0.065 per share in April 2004		-	-	(50,000)	(25,000)	21,750	-	-	(3,250)
Preferred stock converted to common stock for consulting services at \$1.01 per share in May 2004		(4,000)	(4)	100,000	50,000	51,250	-	-	101,246
Common stock issued per subscription in May 2004		-	-	10,000	5,000	(4,000)	-	(1,000)	-
Common stock issued in exchange for consulting services at \$0.86 per share in May 2004		-	-	137,000	68,500	50,730	-	-	119,230
Common stock issued in exchange for consulting services at \$1.15 per share in May 2004		-	-	26,380	13,190	17,147	-	-	30,337
Common stock returned to treasury at \$0.065 per									



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share in June 2004	-	-	(5,000)	(2,500)	2,175	-	-	-	(325)
Common stock issued in exchange for consulting services at \$0.67 per share in June 2004	-	-	270,500	135,250	45,310	-	-	-	180,560
Common stock issued in exchange for consulting services at \$0.89 per share in June 2004	-	-	8,000	4,000	3,120	-	-	-	7,120
Common stock issued in exchange for consulting services at \$0.65 per share in June 2004	-	-	50,000	25,000	7,250	-	-	-	32,250
Common stock issued pursuant to a private placement at \$1.00 per share in June 2004	-	-	250,000	125,000	125,000	-	-	-	250,000
Common stock issued in exchange for consulting services at \$0.54 per share in July 2004	-	-	100,000	50,000	4,000	-	-	-	54,000
Common stock issued in exchange for consulting services at \$0.72 per share in July 2004	-	-	5,000	2,500	1,100	-	-	-	3,600
Common stock issued in exchange for consulting services at \$0.47 per share in July 2004	-	-	100,000	50,000	(2,749)	-	-	-	47,251

Common stock issued in exchange for consulting services at \$0.39 per share in August 2004	-	-	100,000	50,000	(11,000)	-	-	-	39,000
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APPLIED DNA SCIENCES, INC  
(A development stage company)  
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY, (DEFICIENCY)  
FOR THE PERIOD SEPTEMBER 16, 2002 (DATE OF INCEPTION) THROUGH JUNE 30, 2007  
(unaudited)

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed	Stock Subscription Receivable	Deficit Accumulated During Development Stage	Total
Preferred stock converted to common stock for consulting services at \$0.39 per share in August 2004	(2,000)	(2)	50,000	25,000	(5,500)	-	-	-	19,498
Common stock issued in exchange for consulting services at \$0.50 per share in August 2004	-	-	100,000	50,000	250	-	-	-	50,250
Common stock issued in exchange for consulting services at \$0.56 per share in August 2004	-	-	200,000	100,000	12,500	-	-	-	112,500
Common stock issued in exchange for consulting services at \$0.41 per share in August 2004	-	-	92,500	46,250	(8,605)	-	-	-	37,645

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Common stock issued in exchange for consulting services at \$0.52 per share in September 2004	-	-	1,000,000	500,000	17,500	-	-	-	517,500
Common stock issued in exchange for consulting services at \$0.46 per share in September 2004	-	-	5,000	2,500	(212)	-	-	-	2,288
Common stock issued pursuant to subscription at \$0.50 per share in September 2004	-	-	40,000	20,000	-	-	-	-	20,000
Preferred shares converted to common stock for consulting services at \$0.41 per share in September 2004	(4,000)	(4)	100,000	50,000	4,000	-	-	-	53,996
Preferred shares issued in exchange for service at \$25 per share in September 2004	60,000	6	-	-	1,499,994	-	-	-	1,500,000
Fair value of 2,841,000 warrants issued to non-employees and consultants for services rendered									

at approximately  
\$0.71 per  
warrant  
in September  
2004

-	-	-	-	2,019,862	-	-	-	2,019,862
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Net Loss	-	-	-	-	-	-	-	(19,358,258)	(19,358,258)
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Balance at

September 30,

2004	60,000	\$	6	23,981,054	\$	11,990,527	\$	6,118,993	\$	-	\$	(1,000)	\$	(22,815,034)	\$	(4,706,508)
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APPLIED DNA SCIENCES, INC  
(A development stage company)  
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY, (DEFICIENCY)  
FOR THE PERIOD SEPTEMBER 16, 2002 (DATE OF INCEPTION) THROUGH JUNE 30, 2007  
(unaudited)

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed	Stock Subscription Receivable	Deficit Accumulated During Development Stage	Total
Common stock issued in exchange for consulting services at \$0.68 per share in October 2004	-	-	200,000	100,000	36,000	-	-	-	136,000
Common stock returned to treasury at \$0.60 per share in October 2004	-	-	(1,069,600)	(534,800)	(107,297)	-	-	-	(642,097)
Common stock issued in exchange for consulting services at \$0.60 per share in October 2004	-	-	82,500	41,250	8,250	-	-	-	49,500
Common Stock issued pursuant to subscription at \$0.60 per share in October 2004	-	-	500,000	250,000	50,000	(300,000)	-	-	-
Common stock issued in exchange for consulting services at \$0.50 per share in October 2004	-	-	532,500	266,250	-	-	-	-	266,250
Common Stock issued in exchange for debt at \$0.50 per									

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share in October 2004	-	-	500,000	250,000	-	-	-	-	250,000
Common Stock issued pursuant to subscription at \$0.45 per share in October 2004	-	-	1,000,000	500,000	(50,000)	(450,000)	-	-	-
Common stock issued in exchange for consulting services at \$0.45 per share in October 2004	-	-	315,000	157,500	(15,750)	-	-	-	141,750
Common Stock issued in exchange for consulting services at \$0.47 per share in November 2004	-	-	100,000	50,000	(3,000)	-	-	-	47,000
Common Stock issued in exchange for consulting services at \$0.80 per share in November 2004	-	-	300,000	150,000	90,000	-	-	-	240,000
Common Stock issued in exchange for consulting services at \$1.44 per share in November 2004	-	-	115,000	57,500	108,100	-	-	-	165,600
Common Stock issued in exchange for employee services at \$1.44 per share in November 2004	-	-	5,000	2,500	4,700	-	-	-	7,200
Warrants exercised at \$0.60 per share in November 2004	-	-	60,000	30,000	6,000	(4,000)	-	-	32,000

Beneficial Conversion discount relating to Notes Payable	-	-	-	-	1,465,000	-	-	-	1,465,000
Common stock issued at \$0.016 per share in exchange for note payable in December 2004	-	-	5,500,000	2,750,000	(2,661,500)	-	-	-	88,500
Common stock issued in settlement of debt at \$0.50 per share in December 2004	-	-	2,930,000	1,465,000	-	(125,000)	-	-	1,340,000



APPLIED DNA SCIENCES, INC  
(A development stage company)  
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY, (DEFICIENCY)  
FOR THE PERIOD SEPTEMBER 16, 2002 (DATE OF INCEPTION) THROUGH JUNE 30, 2007  
(unaudited)

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed	Stock Subscription Receivable	Deficit Accumulated During Development Stage	Total
Fair value of 6,063,500 warrants issued to non employees and consultants for services rendered at \$0.52 per warrant in October and December 2004	-	-	-	-	3,169,052	-	-	-	3,169,052
Warrants exercised at \$0.10 per share in January 2005	-	-	25,000	12,500	(10,000)	-	-	-	2,500
Common Stock issued in settlement of debt at \$0.33 per share in January 2005	-	-	1,628,789	814,395	(276,895)	-	-	-	537,500
Warrants exercised at \$0.10 per share in January 2005	-	-	17,500	8,750	(7,000)	-	-	-	1,750
Common Stock issued in settlement of debt at \$0.33 per share in January 2005	-	-	2,399,012	1,199,504	(407,830)	-	-	-	791,674
Common Stock issued in									

exchange for consulting services at \$1.30 per share in January 2005	-	-	315,636	157,818	252,508	-	-	-	410,326
Fair value of warrant liability reclassified due to registration rights granted in February 2005	-	-	-	-	(3,108,851)	-	-	-	(3,108,851)
Common Stock issued in exchange for consulting services at \$1.44 per share in February 2005	-	-	5,796,785	2,898,393	5,418,814	-	-	-	8,317,207
Fair value of 55,000 warrants issued to consultants for services at \$1.31 per warrant in February 2005	-	-	-	-	72,017	-	-	-	72,017
Common Stock issued in settlement of debt at \$0.33 per share in February 2005	-	-	75,757	37,879	(12,879)	-	-	-	25,000
Warrants exercised at \$0.10 per share in February 2005	-	-	20,000	10,000	(8,000)	-	-	-	2,000
Common Stock issued in settlement of debt at \$0.33 per share in February 2005	-	-	606,060	303,030	(103,030)	-	-	-	200,000
Warrants exercised at \$0.10 per	-	-	45,000	22,500	(18,000)	-	-	-	4,500

share in February  
2005

Common Stock  
issued in  
exchange for  
related party debt  
at \$1.31 per share  
in February  
2005

-	-	1,500,000	750,000	1,215,000	-	-	-	1,965,000
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Common Stock  
issued in  
settlement of debt  
at \$0.33 per  
share in February  
2005

-	-	278,433	139,217	(47,334)	-	-	-	91,883
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APPLIED DNA SCIENCES, INC  
(A development stage company)  
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY, (DEFICIENCY)  
FOR THE PERIOD SEPTEMBER 16, 2002 (DATE OF INCEPTION) THROUGH JUNE 30, 2007  
(unaudited)

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed	Stock Subscription Receivable	Deficit Accumulated During Development Stage	Total
Common Stock issued in exchange for consulting services at \$1.17 per share in February 2005	-	-	17,236	8,618	11,548	-	-	-	20,166
Common stock issued in exchange for debt at \$0.50 per share in February 2005	-	-	300,000	150,000	-	-	-	-	150,000
Common Stock issued in exchange for consulting services at \$0.95 per share in February 2005	-	-	716,500	358,250	322,425	-	-	-	680,675
Common Stock issued in exchange for consulting services at \$0.95 per share in February 2005	-	-	10,500	5,250	4,725	-	-	-	9,975
Common stock issued in exchange for debt at \$0.50 per share in March 2005	-	-	13,202,000	6,601,000	-	-	-	-	6,601,000

Common Stock issued in exchange for consulting services at \$1.19 per share in March 2005	-	-	185,000	92,500	127,650	-	-	-	220,150
Options exercised at \$0.60 per share in March 2005	-	-	100,000	50,000	10,000	-	-	-	60,000
Common Stock issued in exchange for consulting services at \$0.98 per share in March 2005	-	-	1,675,272	837,636	804,131	-	-	-	1,641,767
Common Stock issued in exchange for consulting services at \$0.92 per share in March 2005	-	-	24,333	12,167	10,219	-	-	-	22,386
Common Stock issued in exchange for consulting services at \$0.99 per share in March 2005	-	-	15,000	7,500	7,350	-	-	-	14,850
Common stock issued in exchange for debt at \$0.50 per share in March 2005	-	-	1,240,000	620,000	-	-	-	-	620,000
Common stock canceled for shares issued in exchange of debt in March 2005	-	-	(500,000)	(250,000)	-	-	-	-	(250,000)

Common stock subscribed canceled in March 2005	-	-	-	-	-	750,000	-	-	750,000
Common Stock issued in exchange for consulting services at \$0.89 per share in March 2005	-	-	10,000	5,000	3,900	-	-	-	8,900

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APPLIED DNA SCIENCES, INC  
(A development stage company)  
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY, (DEFICIENCY)  
FOR THE PERIOD SEPTEMBER 16, 2002 (DATE OF INCEPTION) THROUGH JUNE 30, 2007  
(unaudited)

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed	Stock Subscription Receivable	Deficit Accumulated During Development Stage	Total
Adjust common stock par value from \$0.50 to \$0.001 per share, per amendment of Articles of Incorporation in March-05	-	-	-	(32,312,879)	32,312,879	-	-	-	-
Beneficial Conversion discount relating to Notes Payable in March 2005	-	-	-	-	7,371,000	-	-	-	7,371,000
Stock options granted to employees in exchange for services rendered, at exercise price below fair value of common stock in March 2005	-	-	-	-	180,000	-	-	-	180,000
Common Stock issued in exchange for consulting services at \$0.80 per share in April 2005	-	-	160,000	160	127,840	-	-	-	128,000
Common Stock issued in									

exchange for consulting services at \$0.80 per share in April 2005	-	-	40,000	40	31,960	-	-	-	32,000
Common Stock issued in exchange for consulting services at \$0.75 per share in April 2005	-	-	850,000	850	636,650	-	-	-	637,500
Common Stock issued in exchange for consulting services at \$0.33 per share in April 2005	-	-	500,000	500	164,500	-	-	-	165,000
Common Stock canceled during April 2005, previously issued for services rendered at \$3.42 per share	-	-	(10,000)	(10)	(34,190)	-	-	-	(34,200)
Common Stock issued in settlement of debt at \$0.33 per share in April 2005	-	-	75,758	77	24,923	(25,000)	-	-	-
Common Stock issued in exchange for consulting services at \$0.68 per share in April 2005	-	-	50,000	50	33,950	-	-	-	34,000
Proceeds received against subscription payable in June 2005	-	-	-	-	-	118,000	-	-	118,000
Common Stock canceled in June 2005, previously issued									



for  
services rendered  
at \$0.50 per  
share

-	-	(10,000)	(10)	(4,990)	-	-	-	(5,000)
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Cancellation of  
previously  
granted stock  
options granted  
to employees for  
services  
rendered, at  
exercise price  
below fair value of  
common stock

-	-	-	-	(180,000)	-	-	-	(180,000)
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APPLIED DNA SCIENCES, INC  
(A development stage company)  
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY, (DEFICIENCY)  
FOR THE PERIOD SEPTEMBER 16, 2002 (DATE OF INCEPTION) THROUGH JUNE 30, 2007  
(unaudited)

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed	Stock Subscription Receivable	Deficit Accumulated During Development Stage	Total
Common Stock issued in exchange for consulting services at \$0.60 per share in July 2005	-	-	157,000	157	94,043	-	-	-	94,200
Common Stock issued in exchange for intellectual property at \$0.67 per share in July 2005	-	-	36,000,000	36,000	24,084,000	-	-	-	24,120,000
Common Stock issued in exchange for consulting services at \$0.60 per share in July 2005	-	-	640,000	640	383,360	-	-	-	384,000
Common Stock issued in exchange for employee services	-	-	8,000,000	8,000	3,832,000	-	-	-	3,840,000

at \$0.48 per  
share in July  
2005

Common  
Stock issued  
in  
exchange for  
consulting  
services at  
\$0.94 per  
share  
in July 2005

-	-	121,985	121	168,217	-	-	-	168,338
---	---	---------	-----	---------	---	---	---	---------

Common  
Stock issued  
in  
exchange for  
consulting  
services at  
\$0.48 per  
share  
in August  
2005

-	-	250,000	250	119,750	-	-	-	120,000
---	---	---------	-----	---------	---	---	---	---------

Common  
Stock penalty  
shares  
issued  
pursuant to  
pending SB-2  
registration at  
\$0.62 per  
share in  
September  
2005

-	-	814,158	814	501,858	-	-	-	502,672
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Common  
Stock penalty  
shares  
issued  
pursuant to  
pending SB-2  
registration at  
\$0.70 per  
share in  
September  
2005

-	-	391,224	391	273,466	-	-	-	273,857
---	---	---------	-----	---------	---	---	---	---------

Common  
Stock issued

in  
exchange for  
consulting  
services at  
\$0.94 per  
share  
in September  
2005

-	-	185,000	185	173,715	-	-	-	173,900
---	---	---------	-----	---------	---	---	---	---------

Common  
Stock  
returned in  
September  
2005,  
previously  
issued for  
services  
rendered at  
\$0.40 per  
share

-	-	(740,000)	(740)	(453,232)	56,000	1,000	-	(396,972)
---	---	-----------	-------	-----------	--------	-------	---	-----------

Net Loss  
Balance as of  
September  
30, 2005

-	-	-	-	-	-	-	(67,109,519)	(67,109,519)
60,000	\$ 6	112,230,392	\$ 112,230	\$ 82,320,715	\$ 20,000	\$	-	\$(89,924,553)
								\$ (7,471,602)

Common  
stock issued  
in  
exchange for  
services  
at \$0.50 per  
share  
in October  
2005

-	-	400,000	400	199,600	-	-	-	200,000
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APPLIED DNA SCIENCES, INC  
(A development stage company)  
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY, (DEFICIENCY)  
FOR THE PERIOD SEPTEMBER 16, 2002 (DATE OF INCEPTION) THROUGH JUNE 30, 2007  
(unaudited)

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed	Stock Subscription Receivable	Deficit Accumulated During Development Stage	Total
Common Stock issued in exchange for consulting services at \$0.75 per share in October 2005	-	-	100,000	100	74,900	-	-	-	75,000
Common Stock returned in October 2005, previously issued for services rendered at \$0.60 per share	-	-	(350,000)	(350)	(209,650)	-	-	-	(210,000)
Common stock issued pursuant to subscription at \$0.50 per share in December 2005	-	-	40,000	40	19,960	(20,000)	-	-	-
Common Stock issued to investors pursuant to registration rights agreement at \$0.51 per share in December 2005	-	-	505,854	506	257,480	-	-	-	257,986

Common Stock returned in January 2006, previously issued for services rendered at \$0.60 per share	-	-	(250,000)	(250)	(149,750)	-	-	-	(150,000)
Common Stock issued to investors pursuant to registration rights agreement at \$0.32 per share in January 2006	-	-	806,212	806	257,182	-	-	-	257,988
Common Stock issued to investors pursuant to registration rights agreement at \$0.20 per share in January 2006	-	-	1,289,927	1,290	256,695	-	-	-	257,985
Fair value of 200,000 warrants issued to consultants for services at \$0.22 per warrant in January 2006	-	-	-	-	43,098	-	-	-	43,098
Common Stock issued in exchange for consulting services at \$0.17 per share in February 2006	-	-	160,000	160	27,040	-	-	-	27,200

Common Stock issued in exchange for consulting services at \$0.16 per share in February 2006	-	-	3,800,000	3,800	604,200	-	-	-	608,000
Common Stock returned in March 2006, previously issued for services rendered at \$0.80 per share	-	-	(150,000)	(150)	(119,850)	-	-	-	(120,000)
Previously issued warrants reclassified to warrant liability	-	-	-	-	(1,584,614)	-	-	-	(1,584,614)
Common Stock issued in exchange for consulting services at \$0.20 per share in July 2006	-	-	2,400,000	2,400	477,600	-	-	-	480,000
Fair value of stock options granted to employees in exchange for services rendered in September 2006	-	-	-	-	153,000	-	-	-	153,000
Net loss	-	-	-	-	-	-	-	(2,410,237)	(2,410,237)
Balance as of September 30, 2006	60,000	\$ 6	\$ 120,982,385	\$ 120,982	\$ 82,627,606	\$	-	\$ -	\$ (92,334,791) \$ (9,586,197)





APPLIED DNA SCIENCES, INC  
(A development stage company)  
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY, (DEFICIENCY)  
FOR THE PERIOD SEPTEMBER 16, 2002 (DATE OF INCEPTION) THROUGH JUNE 30, 2007  
(unaudited)

	Preferred Shares	Preferred Shares Amount	Common Shares	Common Stock Amount	Additional Paid in Capital Amount	Common Stock Subscribed	Stock Subscription Receivable	Deficit Accumulated During Development Stage	Total
Common stock issued in Dec 2006 in settlement of related party debt at \$2.28 per share	-	-	180,000	180	410,249	-	-	-	410,429
Common stock issued in May 2007 in settlement of convertible debenture at \$0.11 per share	-	-	9,645,752	9,646	1,090,354	-	-	-	1,100,000
Common stock issued in June 2007 in settlement of convertible debenture at \$0.11 per share	-	-	29,691,412	29,691	3,215,309	-	-	-	3,245,000
Beneficial conversion feature relating to convertible debenture	-	-	-	-	76,788	-	-	-	76,788
Net loss	-	-	-	-	-	-	-	(8,233,506)	(8,233,506)
Balance as of June 30, 2007	60,000	\$ 6	160,499,549	\$ 160,499	\$ 87,420,306	\$ -	\$ -	\$ (100,568,297)	\$ (12,987,486)

See accompanying notes to  
consolidated financial statements

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**APPLIED DNA SCIENCES, INC**  
**(A DEVELOPMENT STAGE COMPANY)**  
**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**  
**(unaudited)**

	For the nine months ended June 30,		For the Period September 16, 2002 (Date of Inception) through June 30, 2007
	2007	2006 RESTATED	
Cash flows from operating activities:			
Net income (loss)	\$ (8,233,506)	\$ 5,606,849	\$ (100,568,297)
Adjustments to reconcile net loss to net used in operating activities:			
Depreciation and amortization	324,594	1,021,199	2,054,320
Organization expenses	-	-	88,500
Impairment of intangible assets	-	-	5,655,011
Preferred shares issued in exchange for services	-	-	1,500,000
Options and warrants issued in exchange for services rendered	-	43,100	11,001,255
Income attributable to repricing of warrants and debt derivatives	(142,131)	(14,250,621)	(33,687,959)
Financing costs attributable to issuance of warrants	-	2,271,000	25,419,214
Amortization of beneficial conversion feature-convertible notes	10,093	-	10,471,093
Amortization of capitalized financing costs	1,005,975	247,238	1,641,988
Amortization of debt discount attributable to convertible debentures	1,580,519	276,090	2,312,009
Debt in exchange for common stock at fair market price	-	-	1,365,000
Common stock issued in exchange for services rendered	-	710,200	31,964,573
Common stock exchanged for intellectual property in connection with costs of acquiring intangible assets	-	-	14,689,100
Common stock issued in connection with penalties pursuant to registration	-	773,958	1,550,487
Common stock canceled-previously issued for services rendered	-	(480,000)	(1,343,845)
Change in assets and liabilities:			
Decrease (increase) in accounts receivable	9,631	(18,900)	-
Decrease (increase) in prepaid expenses and deposits	(32,208)	(145,849)	(153,137)
Decrease (increase) in other assets	8,419	5,940	(13,450)
Increase in due related parties	-	(52,662)	40,753
Increase (decrease) in accounts payable and accrued liabilities	3,811,641	1,685,792	8,737,251

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Net cash used in operating activities	(1,656,973)	(2,306,666)	(17,276,134)
Cash flows from investing activities:			
Payments for patent filing	-	-	(25,698)
Acquisition (disposal) of property and equipment, net	(11,039)	(35,851)	(188,360)
Net cash provided by (used in) investing activities	(11,039)	(35,851)	(214,058)
Cash flows from financing activities:			
Proceeds from sale of common stock, net of cost	-	-	432,000
Proceeds from issuance of convertible notes, net of costs	477,500	4,242,500	13,924,000
Proceeds from sale of options	-	-	343,750
Repayment of debt	-	-	(24,854)
Proceeds from loans	-	-	2,750,000
Advances from shareholders	-	-	100,088
Net cash provided by financing activities	477,500	4,242,500	17,524,984
Net increase in cash and cash equivalents	(1,190,512)	1,899,983	34,792
Cash and cash equivalents at beginning of period	1,225,304	31,190	-
Cash and cash equivalents at end of period	\$ 34,792	\$ 1,931,173	\$ 34,792

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**APPLIED DNA SCIENCES, INC**  
**(A DEVELOPMENT STAGE COMPANY)**  
**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**  
**(unaudited)**

	For the nine months ended June 30,		For the Period September 16, 2002 (Date of Inception) through June 30, 2007
	2007	2006	
Supplemental Disclosures of Cash Flow Information:			
Cash paid during period for interest	-	-	-
Cash paid during period for taxes	-	-	-
Non-cash transactions:			
Common stock issued for services	-	710,200	31,964,573
Common stock issued in exchange for intellectual property	-	-	
Common stock issued in exchange for previously incurred debt	4,361,200	-	2,313,500
Common stock canceled-previously issued for services rendered	-	(480,000)	(1,343,845)
Common stock issued for ESOP shares	-	-	
Common stock penalty shares issued pursuant to Pending SB-2 registration	-	773,958	
Amortization of beneficial conversion feature	-	-	10,471,093
Preferred shares in exchange for service at \$25 per share in September 2004	-	-	1,500,000
Fair value of options and warrants issued to consultants for services	-	43,100	11,001,255
Acquisition:			
Common stock retained	-	-	1,015
Assets acquired	-	-	(135)
Total consideration paid	-	-	880
Organizational expenses-note issued in exchange for shares retired			88,500
Common stock issued in exchange for note payable			88,500
See the accompanying notes to the consolidated financial statements			

**APPLIED DNA SCIENCES, INC**  
**(A DEVELOPMENT STAGE COMPANY)**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION**  
**JUNE 30, 2007**  
**(Unaudited)**

**NOTE A - SUMMARY OF ACCOUNTING POLICIES**

*General*

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-QSB, and therefore, do not include all the information necessary for a fair presentation of financial position, results of operations and cash flows in conformity with generally accepted accounting principles.

In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine month period ended June 30, 2007 are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2007. The unaudited condensed consolidated financial statements should be read in conjunction with the consolidated September 30, 2006 financial statements and footnotes thereto included in the Company's SEC Form 10-KSB, as amended.

*Business and Basis of Presentation*

On September 16, 2002, Applied DNA Sciences, Inc. (the "Company") was incorporated under the laws of the State of Nevada. The Company is in the development stage, as defined by Statement of Financial Accounting Standards No. 7 ("SFAS No. 7") and its efforts have been principally devoted to developing DNA embedded biotechnology security solutions in the United States. To date, the Company has generated nominal sales revenues, has incurred expenses and has sustained losses. Consequently, its operations are subject to all the risks inherent in the establishment of a new business enterprise. For the period from inception through June 30, 2007, the Company has accumulated losses of \$100,568,297.

In March 2007, the Company purchased all the outstanding shares of Applied DNA Sciences Europe Limited, an English limited company, as a wholly owned subsidiary, for a purchase price of \$10,000. In conjunction with the acquisition, the Company acquired the rights to sell products and services in the United Kingdom. Included as part of the acquisition agreement, the Company is obligated to pay a 2% fee of any United Kingdom sales to the former shareholder of Applied DNA Sciences Europe Limited for one year commencing with the first product/services sales. The cost of acquisition was charged to current period operating expenses.

The consolidated financial statements include the accounts of the Company, and its wholly-owned subsidiaries Applied DNA Operations Management, Inc., APDN (B.V.I.), Inc. and Applied DNA Sciences Europe Limited. Significant inter-company transactions have been eliminated in consolidation.

*Reclassification*

Certain prior period amounts have been reclassified for comparative purposes.

*Property and Equipment*

Property and equipment are stated at cost and depreciated over their estimated useful lives of 3 to 5 years using the straight line method. At June 30, 2007 property and equipment consist of:

Computer equipment	\$ 27,404
Lab equipment	54,974
Furniture	105,984
Accumulated depreciation	(67,497)

Net	\$ 120,865
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**APPLIED DNA SCIENCES, INC**  
**(A DEVELOPMENT STAGE COMPANY)**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION**  
**JUNE 30, 2007**  
**(Unaudited)**

**NOTE A - SUMMARY OF ACCOUNTING POLICIES (continued)**

*Stock Based Compensation*

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure-an amendment of SFAS 123." This statement amends SFAS No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The Company has chosen to continue to account for stock-based compensation using the intrinsic value method prescribed in APB Opinion No. 25 and related interpretations. Accordingly, compensation expense for stock options is measured as the excess, if any, of the fair market value of the Company's stock at the date of the grant over the exercise price of the related option. The Company has adopted the annual disclosure provisions of SFAS No. 148 in its financial reports for the year ended September 30, 2006 and for the subsequent periods. The Company did not issue employee options as stock-based compensation during the three or nine months ended June 30, 2007 and therefore has no unrecognized stock compensation related liabilities ended June 30, 2007.

On January 1, 2006, the Company adopted the fair value recognition provisions of Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 123, Accounting for Stock Based Compensation, to account for compensation costs under our stock option plans. We previously utilized the intrinsic value method under Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (as amended) ("APB 25"). Under the intrinsic value method prescribed by APB 25, no compensation costs were recognized for our employee stock options because the option exercise price equaled the market price on the date of the grant. Prior to January 1, 2006 we only disclosed the pro forma effects on net income and earnings per share as if the fair value recognition provisions of SFAS 123(R) had been utilized.

In adopting SFAS No. 123(R), we elected to use the modified prospective method to account for the transition from the intrinsic value method to the fair value recognition method. Under modified prospective method, compensation cost is recognized from the adoption date forward for all new stock options granted and for any outstanding unvested awards as if the fair value method had been applied to those awards as of the date of the grant. In the nine months ended June 30, 2007, the Company did not grant any employee stock options.

*Revenue Recognition*

Revenues are recognized in the period that services are provided. For revenue from product sales, the Company recognizes revenue in accordance with Staff Accounting Bulletin No. 104, REVENUE RECOGNITION ("SAB104"), which superseded Staff Accounting Bulletin No. 101, REVENUE RECOGNITION IN FINANCIAL STATEMENTS ("SAB101"). SAB 101 requires that four basic criteria must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred; (3) the selling price is fixed and determinable; and (4) collectibility is reasonably assured. Determination of criteria (3) and (4) are based on management's judgments regarding the fixed nature of the selling prices of the products delivered and the collectibility of those amounts. Provisions for discounts and rebates to customers, estimated returns and allowances, and other adjustments are provided for in the same period the related sales are recorded. The Company defers any revenue for which the product



has not been delivered or is subject to refund until such time that the Company and the customer jointly determine that the product has been delivered or no refund will be required. At June 30, 2007 the Company did not have any deferred revenue.

SAB 104 incorporates Emerging Issues Task Force 00-21 (“EITF 00-21”), MULTIPLE DELIVERABLE REVENUE ARRANGEMENTS. EITF 00-21 addresses accounting for arrangements that may involve the delivery or performance of multiple products, services and/or rights to use assets. The effect of implementing EITF 00-21 on the Company’s financial position and results of operations was not significant.

*Concentrations of Credit Risk*

Financial instruments and related items which potentially subject the Company to concentrations of credit risk consist primarily of cash, cash equivalents and trade receivables. The Company places its cash and temporary cash investments with credit quality institutions. At times, such investments may be in excess of the FDIC insurance limit. The Company periodically reviews its trade receivables in determining its allowance for doubtful accounts. At June 30, 2007, allowance for doubtful receivable was \$0.

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**JUNE 30, 2007**  
**(Unaudited)**

**NOTE A - SUMMARY OF ACCOUNTING POLICIES (continued)**